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SIPDIS

SIPDIS, TREASURY FOR EVAN S. MEDEIROS

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SUBJECT: U.S.-CHINA STRATEGIC ECONOMIC DIALOGUE (SED)  
BACKGROUND

¶1. BEGIN SUMMARY: The U.S. Department of Treasury Prepared the backgrounder information in paragraph 2 to assist posts in understanding the U.S.-China Strategic Economic Dialogue (SED) and in discussing the SED with host governments, and other interested parties such as business groups and the media, if asked. Treasury has already distributed this document to interested parties, including Congress and others. The SED was established in September 2006 as a vehicle for high-level economic discussions between the United States and China. Two such cabinet-level SED meetings have occurred to date, with the third to be held in Beijing in December. END SUMMARY.

¶2. The purpose of the SED is to manage the U.S.-China economic relationship on a long-term, strategic basis. This relationship is deep, broad, and complex. Stable and prosperous bilateral economic relations are increasingly important to both countries.

¶3. President Bush and President Hu established the SED in September 2006, as a high-level mechanism to build on shared priorities and to manage mutual concerns. The Special Representatives of the two countries for the SED are U.S. Secretary of the Treasury Henry M. Paulson, Jr. and China's Vice Premier Wu Yi.

¶4. The SED has three broad goals: to enhance the U.S.-China economic relationship, establishing new habits of cooperation; to catalyze China's next wave of economic transition; and to cultivate China as a responsible global economic power.

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Progress  
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¶5. Three metrics demonstrate meaningful progress in the twelve months since the establishment of the SED.

(1) Direct Communication: The SED process has produced an unprecedented level of direct communication between the U.S. and Chinese governments at all levels, on multiple issues, and across each nation's bureaucracies. Principals and staff in the United States and China are actively engaged in dialogues on a broad range of strategic economic questions, including: capital markets reform, more open and transparent investment regimes, energy conservation, environmental protection, consumer safety, and rule of law. One of the core SED principles is the importance of direct and robust communication across the

U.S. and Chinese governments.

(2) Results: In its first year, the SED produced concrete results. Tangible agreements made through the SED process built confidence on both sides and showed progress toward our long-term goals. Examples include:

- A breakthrough civil aviation agreement, for both cargo and passenger flights;
- Greater market access for major financial services sector banks, securities companies, insurance companies, and asset managers;
- Enhanced energy security and environmental protection through efforts on climate change, development of clean coal technologies, and elimination of trade barriers on environmental products;
- Appreciation of the Chinese currency, the RMB, by more than 10 percent since July 2005, and widening of the band of daily fluctuations of the currency; and
- Strengthened transparency, and protection of intellectual property and rule of law.

(3) Catalyzing reform: The SED is more than an event that occurs twice per year; progress is achieved throughout the year. The SED seeks to broaden the scope and accelerate the pace of economic reform in China and beyond its WTO commitments. Our goal is to see China move more quickly toward a market-driven, open, and competitive economy. Change is occurring more rapidly than would have been the case without the SED. Since the last Cabinet-level meeting of the SED in May 2007, for example, the Chinese have:

STATE 00136164 002 OF 002

- Acted to minimize market-distorting measures that favor exports." and to address China's trade surplus by cutting tax rebates on exports of 2,831 commodities;
- Sped up the timetable for lifting the moratorium on the licensing of securities companies, including joint ventures;
- Improved food and product safety, including forming a State Council-level working group, agreeing to new work plans with the Consumer Product Safety Commission, and launching negotiations with the United States on new MOUs on drugs, medical devices, food and feed; and
- Signed an Industrial Energy Efficiency Cooperation MOU with the U.S. Department of Energy to promote energy efficiency at energy-intensive factories in China that will reduce greenhouse gas emissions.

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Looking Forward: Preparations for SED III  
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16. Direct discussion with the Chinese will accelerate during the Fall, highlighted by December meetings in Beijing of the Joint Commission on Commerce and Trade (co-chaired on the U.S. side by Secretary Gutierrez and Ambassador Schwab) and the third round of the SED (chaired on the U.S. side by Secretary Paulson).

17. The third Cabinet-level meeting of the SED will focus on four areas: financial sector reform (including currency and reducing limits on foreign equity participation in China's financial sector); consumer protection and product safety; climate and energy security; and open investment.

18. Our discussions with the Chinese this Fall build on two important meetings in the U.S.-China economic relationship. In early August, 2007, Secretary Paulson met with Chinese officials in Beijing, including President Hu and Vice Premier Wu. Following up on issues discussed at the May SED, the discussions focused on currency, energy and the environment, and consumer safety. In September 2007, on the margins of the APEC summit in Australia, President Bush and Chinese President Hu met for over 90 minutes, discussing currency, trade, climate change, and product safety. These issues are being advanced through the SED process.

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